

STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS

Calendar Year 2007



JOHN CHIANG
California State Controller

May 2008



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California State Controller

May 9, 2008

To the Members of the State Legislature
and the People of California:

Re: Property Tax Apportionments Report to the Legislature for Calendar Year 2007

I am pleased to present the Property Tax Apportionments report for calendar year 2007. This report, prepared pursuant to Government Code section 12468, is intended to help mitigate problems associated with the counties' apportionment and allocation of property tax revenues.

The audits completed by the State Controller's Office in 2007 found the audited counties to be generally in compliance with the legal requirements for allocating property tax revenues. However, this report notes specific problem areas relative to individual counties.

I hope you find the report informative and useful for future policy decisions.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

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Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during the 2007 calendar year. After the passage of Proposition 13 in 1978, the California Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase.

Property tax revenues that local governments receive each year are based on the amount received the prior year plus a share of the property tax growth within their boundaries. Property tax revenues are then allocated to local agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation code. This methodology is commonly referred to as the AB 8 process or the AB 8 system. These methods have been further refined in subsequent laws passed by the Legislature.

The SCO's property tax audit program began on July 1, 1986, pursuant to Revenue and Taxation Code section 95.6 (now Government Code section 12468). The statute mandates that the SCO perform audits of the allocation and apportionment of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. The statute also specifies that the SCO is to prepare an annual report summarizing the results of its findings under this audit program.

We developed and implemented a comprehensive audit program that includes, but is not limited to, a detailed analysis of past and current requirements of property tax laws and an examination of property tax systems, processes, and records at the county level. Each audit encompasses an evaluation of a county's property tax apportionment methodology, allocation procedures, and compliance with applicable laws and regulations. We applied procedures considered necessary and appropriate to provide a basis for reporting on the areas examined.

Government Code section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During 2007, the SCO completed audits of five counties' property tax apportionment and allocation systems, processes, and records. The five counties include Lake, Los Angeles, Riverside, Sacramento, and San Bernardino.

As a part of our audit, we performed follow-up reviews to ensure that the counties properly addressed the findings identified in our previous audit reports. We are pleased to note that all five counties have successfully resolved the prior audit findings. In addition, we had no reportable audit findings or conditions in three of the five counties audited during 2007.

Therefore, except for the findings and recommendations noted in this report, all five counties audited during 2007 complied with the requirements for the apportionment and allocation of property tax revenues.

Our audit report findings for the remaining two counties are broadly classified as follows:

- One county computed new annual tax increment factors for all jurisdictions when implementing jurisdictional changes.
- One county made methodological errors in calculating and distributing the annual tax increment; incorrectly distributed supplemental property taxes to K-12 schools; incorrectly included bond collections in the property tax gross increment to compute the housing set aside for a redevelopment project that was greater than total reported debt; and made three methodological errors when computing unitary and operating nonunitary property tax shares.

One of the two counties agreed with our findings and stated that corrective action has been or will be taken to rectify the issues noted in our audit report. The other county did not respond to our draft audit report.

Overview

Introduction

This report presents the results of five audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2007. The following counties were audited: Lake, Los Angeles, Riverside, Sacramento, and San Bernardino. Government Code section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate problems associated with property tax apportionment and allocation.

Except for the findings and recommendations noted in this report, all five audited counties complied with the requirements for the apportionment and allocation of property tax revenues.

Three of the counties audited—Los Angeles, Riverside, and Sacramento—had no reportable findings.

Background

After the passage of Proposition 13 in 1978, the California State Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase. These methods have been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill 8, which established the method of allocating property taxes for Fiscal Year (FY) 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

Property tax revenues that local governments receive each fiscal year are based on the amount received the prior year plus a share of the property tax growth within their boundaries. Property tax revenues are then apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 process involved several steps, including the transfer of revenues from schools to local agencies and the development of the tax rate area annual tax increment growth factors (ATI factors), which determine the amount of property tax revenues allocated to each entity (local agency and school). The total amount allocated to each entity is then divided by the total amount to be allocated to all entities to determine the AB 8 factor (percentage share) for each entity for the year. The AB 8 factors are computed each year for all entities using the revenue amounts established in the prior year. These amounts are adjusted for growth annually using ATI factors.

Subsequent legislation has removed revenues generated by unitary and operating nonunitary property and pipeline from the AB 8 system. This revenue is now allocated and apportioned under a separate system.

Other legislation established an Educational Revenue Augmentation Fund (ERAF) in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the ERAF. The fund is subsequently allocated and apportioned by the county auditor according to instructions received from the local superintendent of schools or chancellor of community colleges.

Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if unpaid, can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not constitute sufficient “permanence” or have other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties, composed of unitary and nonunitary value, assessed by the State Board of Equalization.
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

Audit Program

The property tax audit program began on July 1, 1986, under Revenue and Taxation Code section 95.6 (now Gov. Code § 12468). The statute mandates that the State Controller periodically perform audits of the allocation and apportionment of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. However, the State Controller's authority to compel resolution of its audit findings is limited to those findings involving an overpayment of state funds.

Overpayment of state general fund money is recoverable by the State under several provisions of law (e.g., Education Code section 42237.7 et seq., and Government Code section 12420 et seq.). In addition, the State Controller has broad authority to recover overpayments made from the State Treasury. If an audit finds overpayment of state funds, and the state agency that made or authorized the payment does not seek repayment, the SCO is authorized to pursue recovery through a variety of means (e.g., Government Code sections 12418–12419.5). The specific remedy employed by the SCO depends on the facts and circumstances of each situation.

To carry out the mandated duties of the State Controller, the SCO developed and implemented a comprehensive audit program that includes, but is not limited to, a detailed analysis of past and current requirements of property tax laws and an examination of property tax records, processes, and systems at the county level.

These property tax apportionment audits have identified and aided in the correction of property tax underpayments to public schools. The underallocation of property taxes by individual counties to their public schools results in a corresponding overpayment of state funds to those schools by the same amount. This, in turn, causes public schools in other counties to receive less state funding because the total funds available are limited. Subsequent legislation forgave some counties for underpayments to schools without requiring repayment or assessment of penalties. However, the legislation required that the cause of the underallocations, as identified by the audits, be corrected.

Audit Scope

Each audit encompasses an evaluation of a county's property tax apportionment methodology, allocation procedures, and compliance with applicable laws and regulations. The auditors used procedures considered necessary to provide a basis for reporting on the areas examined. In conducting the audits, the auditors focused on the following areas to determine if:

- The apportionment and allocation of the annual tax increment (ATI) was in accordance with Revenue and Taxation Code sections 96 through 96.5;
- The methodology for redevelopment agencies' base-year calculations and apportionment and allocation of the ATI was in accordance with Revenue and Taxation Code sections 96.4 and 96.6 and Health and Safety Code sections 33670 through 33679;
- The effect of jurisdictional changes on base-year tax revenues and the ATI was in accordance with Revenue and Taxation Code section 99;
- The apportionment and allocation of property tax revenues from supplemental assessments was in accordance with Revenue and Taxation Code sections 75.60 through 75.71;
- The apportionment and allocation of state-assessed unitary and operating nonunitary property taxes was in accordance with Revenue and Taxation Code section 100;
- The computation and apportionment of property tax revenues to low- and no-tax cities was in accordance with Revenue and Taxation Code section 98;
- The computation and collection of local jurisdictions' property tax administrative costs was in accordance with Revenue and Taxation Code sections 95.2 and 95.3;

- The computation and apportionment of property tax revenues to the ERAF was in accordance with Revenue and Taxation Code sections 97 through 97.3; and
- For eligible counties, the computation of the county credit against the county's ERAF shift was in accordance with Revenue and Taxation Code sections 97.3(a)(5) and 97.36.

Conclusion

The property tax allocation and apportionment system is generally operating as intended. In the interest of efficiency and cost control for both the counties and the State, we submit the Summary of Findings and Recommendations in this report to assist in initiating changes that will help improve the system.

Summary of Findings and Recommendations

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in 2007 indicated that the counties complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified and are described below. Recommendations to resolve the problems are included with the individual county findings.

Unresolved Prior Audit Findings

As part of the audit process, auditors review the prior audit report to determine which issues, if any, require follow-up action. Auditors perform procedures to determine whether the county has resolved previously noted findings, and they restate in the current audit any unresolved prior audit findings.

We noted no findings for this area.

Computation of Annual Tax Increment Factors

The Revenue and Taxation Code requires that each jurisdiction in a tax rate area (TRA) must be allocated property tax revenues in an amount equal to the property tax revenues allocated to it in the prior fiscal year. The difference between this amount and the total amount of property tax assessed in the current year is known as the annual tax increment. The computation of the annual tax increment results in a percentage that is used to allocate growth in assessed valuation to a county's local government jurisdictions and schools from the base year forward. Revenue and Taxation Code sections 96 through 96.5 prescribe this methodology. (Some exceptions to this allocation are contained in the Revenue and Taxation Code for specified TRAs.)

One county adjusted the redevelopment increment in the AB 8 system net of pass-through; the County Auditor-Controller's Office list of TRAs did not reconcile to the list provided by the county Assessor's Office; the assessed valuation the county used in computing the AB 8 system gross levy included airplane values; and, in FY 2005-06, the county used the individual TRA assessed valuation for prior year and current year to compute the prior year base revenues and current year gross levy for each jurisdiction.

Jurisdictional Changes

Revenue and Taxation Code section 99 prescribes the procedures the county must perform in order to make adjustments for the apportionment and allocation of property taxes resulting from changes in jurisdictional controls or changes in responsibilities of local government agencies and schools. The statute requires the county to prepare specific documentation that takes into consideration services and responsibilities.

One county computed new annual tax increment factors for all jurisdictions when implementing jurisdictional changes.

**Supplemental
Property Tax
Apportionments**

When a revaluation of property occurs during the fiscal year due to changes in ownership or completion of new construction, supplemental taxes are usually levied on the property. Revenue and Taxation Code sections 75.70, 75.71, and 100.2 provide for the apportionment and allocation of these supplemental taxes.

One county did not adjust K-12 schools supplemental property tax apportionment factors for average daily attendance.

**Supplemental
Property Tax
Administrative Fees**

In addition to the fee allowed by Revenue and Taxation Code section 95.3 for the administration of the secured tax roll, Revenue and Taxation Code section 75.60 allowed the charging of a fee for the administration of the supplemental tax roll. Once they adopt a method of identifying the actual administrative costs associated with the supplemental roll, counties are allowed to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5% of the supplemental taxes collected.

We noted no findings for this area.

**Redevelopment
Agencies**

The legal requirements for the apportionment and allocation of property tax to redevelopment agencies (RDA) are found in Revenue and Taxation Code sections 96.4 and 96.6 and Health and Safety Code sections 33670 through 33679. California community redevelopment law entitles a community redevelopment agency to all of the property tax revenue realized from growth in values since the redevelopment project's inception, with specified exceptions.

One county included bond collections in the RDA property tax gross increment to compute the low-income set-aside and pass-through amounts and allocated a property tax increment that was greater than total reported debt.

**Unitary and
Operating
Nonunitary
Property Taxes**

The process for allocating and apportioning property taxes from certain railroad and utility companies functions through the unitary and operating nonunitary tax system employed by the State Board of Equalization. Unitary properties are those properties on which the State Board of Equalization "may apply the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities and railroads). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee." Revenue and Taxation Code section 100 prescribes the procedures counties must perform to allocate unitary and operating nonunitary property taxes beginning in Fiscal Year (FY) 1988-89.

In one county, in FY 2002-03, the unitary and operating nonunitary assessed valuation exceeded 102%. The excess of 102% was adjusted using an incorrect apportionment factor derived from the AB 8 system. This county's apportionment factors for FY 2004-05 did not reconcile to that of the prior year, and, in FY 2004-05, the county did not adjust the vehicle license fee amount in the AB 8 system. These incorrect AB 8 factors were used in FY 2005-06 to adjust the unitary and operating nonunitary assessed valuation in excess of 102%.

Property Tax Administrative Fees

Counties are allowed to collect from each appropriate jurisdiction that jurisdiction's share of the cost of assessing, collecting, and apportioning property taxes. Revenue and Taxation Code section 95.3 prescribes the requirements for computing and allocating property tax administrative fees. The assessor, tax collector, and auditor generally incur county property tax administrative costs. The county is generally allowed to be reimbursed for these costs.

For FY 2004-05 and FY 2005-06, the county is prohibited by Revenue and Taxation Code section 97.75 from charging a fee for the services provided under Revenue and Taxation Code sections 97.68 and 97.70.

We noted no findings for this area.

Educational Revenue Augmentation Fund

The legal requirements for the local agency shift of property tax revenues to the ERAF are contained in Revenue and Taxation Code sections 97 through 97.3. Beginning in FY 1992-93, each local agency was required to shift an amount of property tax revenues to the ERAF using formulas prescribed by the Revenue and Taxation Code. The property tax revenues in the ERAF are subsequently allocated to schools and community colleges using factors supplied by the county superintendent of schools or chancellor of the California community colleges.

Since the passage of the ERAF shift requirements, the Legislature has enacted numerous bills that affect the shift requirements for various local government agencies. One bill of particular interest was AB 1589 (Chapter 290, Statutes of 1997). This bill primarily addressed three areas related to the ERAF shift: (1) ERAF shift requirements for certain county fire funds for FY 1992-93 (Revenue and Taxation Code section 97.2(c)(4)(B)); (2) a special provision for counties of the second class when computing the ERAF shift amount for county fire funds in FY 1993-94 (Revenue and Taxation Code section 97.3(c)(4)(A)(I)); and (3) ERAF shift requirements for county libraries for FY 1994-95 and subsequent years. After the passage of AB 1589, the State Controller requested advice from the California Attorney General regarding the application of Chapter 290. The Attorney General responded in May 1998.

The Attorney General advised that the amendment to Revenue and Taxation Code section 97.2(c)(4)(B) significantly narrowed the scope of the exemption granted by the code section and was to be given retroactive application. The result is that many counties and special fire protection districts that were able to claim an exemption under the section as it formerly read lost the exemption retroactive to FY 1992-93. Consequently, those counties and special districts were required to shift additional funds to the county ERAF.

In response to the advice by the Attorney General, and noting the severe fiscal impact the loss of the exemption would have on local government agencies, the State Controller recommended that the Legislature consider restoring the exemption previously granted to fire protection districts and county fire funds that was eliminated as a result of Chapter 290, Statutes of 1997. Subsequently, the Legislature enacted AB 417 (Chapter 464, Statutes of 1999), restoring the exemption to fire districts.

We noted no findings for this area.

Tax Equity Allocation

Revenue and Taxation Code section 98 and the Guidelines for County Property Tax Administration Charges and No/Low Property Tax Cities Adjustment, provided by the County Accounting Standards and Procedures Committee, provide a formula for increasing the amount of property tax allocated to a city that had either no or low property tax revenues.

We noted no findings for this area.

Findings of Individual County Audits

Introduction

The findings and recommendations included below are presented as they were stated in the County Property Tax Apportionment and Allocation reports issued by the SCO in calendar year 2007. Unless otherwise indicated, the counties agreed with the findings and recommendations.

The findings and recommendations listed below are solely for the information and use of the California Legislature, the respective counties, the Department of Finance, and the SCO; they are not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report or the respective audit reports, which are a matter of public record.

Lake County (July 1, 2001, through June 30, 2006)

Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued October 31, 2002.

FINDING 1— Calculation and distribution of ATI

Our audit disclosed the following issues.

1. The county adjusted the Highland redevelopment increment in the AB 8 system net of pass-through.
2. The list of tax rate areas (TRAs) in the county Auditor-Controller's Office did not reconcile to the list provided by the county Assessor's Office.
3. The assessed valuation the county used in computing the AB 8 system gross levy included airplane values.
4. In fiscal year (FY) 2005-06, the county used the individual TRA assessed valuation for prior year and current year to compute the prior year base revenues and current year gross levy for each jurisdiction.

Requirements for the apportionment and allocation of the annual tax increment (ATI) are found in Revenue and Taxation Code sections 96 through 96.5. The annual increment of property tax, which is the change in assessed value from one year to the next, is allocated to TRAs on the basis of each TRA's share of the incremental growth in assessed valuations. The tax increment is then multiplied by the jurisdiction's annual tax increment apportionment factors for each TRA. These factors were developed in the 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Recommendation

The county must correct the redevelopment increment adjustment in the AB 8 system from FY 2001-02 through FY 2005-06 to reflect the correct apportionment factors.

The county must reconcile the Auditor-Controller's tax rate area list with the list from the Assessor's Office and close out the non-existing TRAs. The non-existing TRA values should be consolidated into like-kind existing TRAs.

The county must exclude airplane values from the assessed valuation when computing the gross levy for the AB 8 system.

The county must correct the TRA base revenue for FY 2005-06 by using the prior year TRA property tax revenue per jurisdiction.

County's Response

1. The county concurs with this finding. Adjustments were made while the field audit was still in process.
2. The county concurs with this finding and has reconciled the Auditor-Controller's tax rate area list with the list of the Assessor's office. All TRA values have been consolidated into like-kind existing TRAs.
3. The county concurs with this finding and has excluded the aircraft values from future year values when computing the gross levy for the AB 8 system.
4. The county concurs with this finding and the corrections to the base tax revenue were made while the field audit was still in process.

**FINDING 2—
Supplemental property
tax**

The K-12 schools supplemental apportionment factors for FY 2002-03 and FY 2003-04 were not adjusted for ADA.

The legal requirements for supplemental roll property tax apportionment and allocation are found in Revenue and Taxation Code sections 75.60 through 75.71 and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables the counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

Recommendation

The county should re-examine the impact of the ADA error on the K-12 schools' revenues for FY 2002-03 and FY 2003-04. If the error is material and significant, the county must make the necessary revenue corrections.

County's Response

The county concurs with this finding and will re-examine the ADA error impact on the K-12 revenues for FY 2002-03 and FY 2003-04. The county will make the necessary corrections if the error is material and significant.

**FINDING 3—
Redevelopment
agencies**

The county included bond collection in the Northshore redevelopment area (RDA) property tax gross increment to compute the low-income housing set-aside and pass-through amounts.

In FY 2003-04 and FY 2004-05, the county allocated a property tax revenue increment to the Northshore RDA that was greater than the total reported debt.

Requirements for the apportionment and allocation of property tax to RDAs are found in Revenue and Taxation Code sections 96.4 and 96.5. California Community Redevelopment Law generally entitles a community redevelopment agency to all of the property tax revenues that are realized from growths in value since the redevelopment project's inception.

Recommendation

The county should exclude bond revenues from the RDA property tax revenue when computing the low-income set-aside and pass-through.

The county must refund the excess property tax revenue received by the RDA back to the participating jurisdictions within the RDA area.

County's Response

The county concurs with this finding and has excluded bond revenues from the RDA property tax revenue from the calculations beginning with FY 2006-07 and will continue to do this in future calculations.

The county concurs with this finding that in FY 2003-04 and 2004-05 the county allocated a property tax revenue increment to the Northshore RDA that was greater than the total reported debt. Subsequent to the audit the statements of indebtedness for these years have been amended. If the revenue increment is still greater after review of these amendments, the county will refund the excess revenue to the participating districts.

**FINDING 4—
Unitary and operating
nonunitary
apportionment**

Our audit disclosed the following issues.

1. In FY 2002-03, the unitary and operating nonunitary assessed valuation exceeded 102%. The excess of 102% was adjusted using an incorrect apportionment factor derived from the AB 8 system.
2. The apportionment factors for FY 2004-05 did not reconcile to that of the prior year.
3. In FY 2004-05, the county did not adjust the vehicle license fee amount in the AB 8 system. These incorrect AB 8 factors were used in FY 2005-06 to adjust the unitary and operating nonunitary assessed valuation in excess of 102%.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in Revenue and Taxation Code section 100.

Unitary properties are those properties on which the Board of Equalization “may apply the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities and railroads). The *Revenue and Taxation Code* further states, “Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

In FY 1988-89, the Legislature established a separate system for apportioning and allocating the unitary and operating nonunitary property taxes. The unitary and operating nonunitary base year was established and formulas were developed to compute the distribution factors for the fiscal years that followed.

Recommendation

The county must correct the apportionment factors for the unitary and operating nonunitary factors from FY 2002-03 through FY 2005-06.

County’s Response

The county concurs with this finding and the corrections to the unitary and operating nonunitary apportionment factors were made while the field audit was still in process.

Los Angeles County (July 1, 2005, through June 30, 2006)

Follow-up on Prior Audit Findings

Our prior audit report, issued July 31, 2006, had no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

Riverside County (July 1, 2001, through June 30, 2005)

Follow-up on Prior Audit Findings

Our prior audit report, issued in August 2002, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

Sacramento County (July 1, 2003, through June 30, 2006)

Follow-up on Prior Audit Findings

Our prior audit report, issued October 28, 2004, had no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

San Bernardino County (July 1, 2004, through June 30, 2006)

Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued in September 2005.

FINDING— Jurisdictional changes

The county's property tax system recomputed new annual tax increment (ATI) factors for all jurisdictions in jurisdictional changes tax rate areas (TRAs).

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in organization or boundaries of local government agencies and school districts. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

We recommend that the county properly transfer the ATI factors only for changed jurisdictions in the new TRAs and set up the property tax system so that the ATI factors can be manually input into the property tax system for jurisdictional changes.

Copies of the audit reports referred to in this report may be obtained by contacting:

**State Controller's Office
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<http://www.sco.ca.gov>